

1 The Court hereby **GRANTS** Plaintiff St. Jude's Motion
2 for Summary Judgment. Furthermore, the Court **DENIES**
3 Defendant SurModics's Cross-Motion for Partial Summary
4 Judgment.

5 **I. BACKGROUND**

6 St. Jude is a company that designs and manufactures
7 medical devices such as implantable defibrillators,
8 implantable pacemakers, and leads that connect these
9 devices to the heart. SurModics is a biomedical
10 company that creates new technologies that improve on
11 the efficacy of medical devices. Relevant in this
12 dispute, SurModics collaborated with St. Jude to
13 develop various chemical coatings that are used on St.
14 Jude's medical devices. SurModics patented these
15 chemical coatings.

16 On December 6, 2002, St. Jude and SurModics entered
17 into a Master License Agreement ["License Agreement"]
18 that licensed the use of the patented coatings on St.
19 Jude's products. In 2008, however, the patents on
20 SurModics's chemical coatings expired, and St. Jude
21 stopped paying royalties shortly after.

22 On May 20, 2009, SurModics did an audit of St.
23 Jude's books to validate St. Jude's royalty payments
24 paid over the course of the agreement. On March 23,
25 2010, SurModics sent St. Jude an audit report that
26 requested additional royalties of over \$3 million for
27 products that had been manufactured during the License
28 Agreement but sold after the expiration of SurModics's

1 patents.

2 II. LEGAL STANDARD FOR SUMMARY JUDGMENT

3 Summary judgment is appropriate when there is no
4 genuine issue of material fact and the moving party is
5 entitled to judgment as a matter of law. Fed. R. Civ.
6 P. 56(a). A genuine issue is one in which the evidence
7 is such that a reasonable fact-finder could return a
8 verdict for the non-moving party. Anderson v. Liberty
9 Lobby, 477 U.S. 242, 248 (1986).

10 A party seeking summary judgment always bears the
11 initial burden of establishing the absence of a genuine
12 issue of material fact. Celotex Corp. v. Catrett, 477
13 U.S. 317, 322 (1986). "Where the moving party will
14 have the burden of proof on an issue at trial, the
15 movant must affirmatively demonstrate that no
16 reasonable trier of fact could find other than for the
17 moving party." Soremekun v. Thrifty Payless, Inc., 509
18 F.3d 978, 984 (2007).

19 Once the moving party makes this showing, the
20 non-moving party must set forth facts showing that a
21 genuine issue of disputed fact remains. Celotex, 477
22 U.S. at 322. The non-moving party is required by
23 Federal Rules of Civil Procedure Rule 56(e)¹ to go
24 beyond the pleadings and designate specific facts
25

26 ¹ The Federal Rules of Civil Procedure were amended
27 on December 01, 2010. Federal Rule of Civil Procedure
28 56(e) has now been codified as Federal Rule of Civil
Procedure 56(c).

1 showing a genuine issue for trial exists. Id. at 324.

2 **III. ANALYSIS**

3 This Court finds that Plaintiff St. Jude has met
4 its burden for Summary Judgment by making a persuasive
5 showing that the language of the License Agreement does
6 not obligate St. Jude to pay royalties to SurModics for
7 Licensed Products manufactured before but sold after
8 the expiration of SurModics patent. As such, this
9 Court **GRANTS** Plaintiff St. Jude's Motion for Summary
10 Judgment and **DENIES** Defendant SurModics's concurrent
11 Cross-Motion.

12 As a threshold issue, both Parties agree that the
13 contract includes an express choice of law provision
14 indicating that Minnesota law governs any dispute.
15 Given that patent license agreement are governed by
16 ordinary principles of state contract law, this Court
17 follows the choice of law provisions indicated by the
18 license agreement and interpret the contract based on
19 Minnesota law. Power Lift, Inc. v. Weatherford Nipple-
20 up Systems, Inc., 871 F.2d 1082, 1085 (Fed. Cir. 1989).

21 According to Minnesota Law, the Court finds that
22 the License Agreement is unambiguous. City of Virginia
23 v. Northland Office Props Ltd. P'ship, 465 N.W.2d 424,
24 427 (Minn. Ct. App. 1991)(whether a contract is
25 ambiguous is a question of law). Not only do both
26 parties agree that the language of the License
27 Agreement is unambiguous, but the Court finds that the
28 language of the royalty provision unambiguously

1 provides that St. Jude will pay royalties only on Net
2 Sales of Licensed Products during the term of the
3 agreement.

4 As will be discussed further below, the meaning of
5 this provision is unambiguous when read in the context
6 of the contract as a whole. Art Goebel, Inc. v. North
7 Suburban Agencies, Inc., 567 N.W.2d 511, 515 (Minn.
8 1997)(determining whether a contract is ambiguous
9 "depends, not upon words or phrases read in isolation,
10 but rather upon the meaning assigned to the words or
11 phrases in accordance with the apparent purpose of the
12 contract as a whole"). Though it is true that both
13 parties interpret the License Agreement differently,
14 the mere fact that there is a disagreement "on the
15 interpretation of contract language is not
16 determinative that the contract language is ambiguous."
17 Bank Midwest, Minn., Iowa, N.A. v. Lipetzky, 674 N.W.2d
18 176, 179 (Minn. 2004).

19 Given that the language of the License Agreement is
20 unambiguous, this Court interprets the language of the
21 contract without examining extrinsic evidence such as
22 the course of performance of the parties.² See Hous &
23 Redev. Auth. v. Norman, 696 N.W.2D 329, 337 (Minn.
24 2005)("Under a contract analysis, we first look to the

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26 ² Because the parties agree that the License
27 Agreement is unambiguous, both parties only argue
28 extrinsic evidence as alternative arguments relevant in
the unlikely event the Court found that the language of
the License Agreement is ambiguous.

1 language of the contract and examine extrinsic evidence
2 of intent only if the contract is ambiguous on its
3 face."); City of Virginia, 465 N.W.2d at 427 (Minn. Ct.
4 App. 1991)(holding that a court can interpret an
5 unambiguous contract as a matter of law). Accordingly,
6 the following analysis is a plain language
7 interpretation of St. Jude's obligation for royalties
8 under the contract.

9 The disputed royalty provision provides in relevant
10 part that "[f]or each license granted herein, [St.
11 Jude] shall pay to SurModics a royalty for each quarter
12 of each calendar year during the term of this
13 Agreement." Cruz Decl. ¶3, Ex. A at ¶5. Moreover,
14 "[e]arned royalties shall be calculated as provided for
15 in Attachments B1 and B2" of the License Agreement,
16 which only obligate St. Jude to pay royalties on "Net
17 Sales" of "Licensed Products." In other words, the
18 parties' License Agreement requires St. Jude to pay
19 SurModics a royalty on the Net Sales of Licensed
20 Product for each quarter of each calendar year during
21 the term of the agreement. Thus, breaking the royalty
22 provision down in parts, in order to understand this
23 provision and apply it to the context of the dispute,
24 the Court interprets the definition of: (1) Licensed
25 Product, (2) Net Sales, and (3) "during the term" of
26 the agreement.

27 Paragraph 1.d.i of the License Agreement defines
28 royalty bearing "Licensed Products" as: "each of the

1 separately sold Medical Products . . . which . . . but
2 for the license granted herein, the manufacture, use or
3 sale would infringe . . . Patent Rights." According to
4 patent law, "whoever without authority *makes, uses,*
5 *offers to sell, or sells any patent invention within*
6 *the United States . . . during the term of the patent*
7 *therefore, infringes the patent."* 35 U.S.C. §
8 271(a)(emphasis added). Thus, when the language of
9 Paragraph 1(d)(i) is read in the context of patent law,
10 any product based on SurModics's patents that St. Jude
11 manufactured during the term of SurModics's patents is
12 a "Licensed Product." St. Jude argues that the
13 products at issue are not "Licensed Products" because
14 they were sold after the patent expired. However, the
15 Court finds this argument without merit as the products
16 at issue were undisputably *manufactured* while
17 SurModics's patents was still valid and hence, fall
18 squarely within the definition provided in Paragraph
19 1(d)(i).

20 The next step in understanding this agreement is
21 determining when St. Jude is obligated to pay royalties
22 for Licensed Products. Attachments B1 and B2 of the
23 License Agreement is unambiguous in only requiring St.
24 Jude to pay "Earned Royalties on Net Sales of . . .
25 Licensed Products." In other words, St. Jude's primary
26 obligation for royalties are those that are calculated
27 from the "Net Sales." These "Net Sales" are "the total
28 actual billing for sales of Licensed Products." Cruz

1 Decl. ¶3, Ex. A at ¶1(h). Looking at this definition
2 together with the language in Attachments B1 and B2,
3 the Court finds that royalties are not owed on Licensed
4 Products simply because they have been manufactured by
5 St. Jude, rather the plain language is explicit in only
6 obligating St. Jude to pay royalties for products that
7 are actually sold.

8 Furthermore, royalties calculated from the Net
9 Sales of Licensed Products are only required to be paid
10 by St. Jude to SurModics "during the term of this
11 Agreement." Cruz Decl. ¶3, Ex. A at ¶5. The Court
12 finds that the language of the License Agreement is
13 clear and unambiguous in defining the "term of the
14 agreement" as ending as soon as SurModics's patents
15 expires. More specifically, Paragraph 8(a) of the
16 license agreement which defines the word "term," states
17 that "[u]nless terminated earlier, each license herein
18 granted . . . shall extend for each Licensed Product so
19 licensed until expiration of the last-to-expire Patent
20 Rights that covers that product." Cruz Decl. ¶3, Ex. A
21 at 8(a). The Court finds that the language in this
22 paragraph is clear in limiting the term of the license
23 and the royalty obligations to the expiration of
24 SurModics's patents.

25 Moreover, Paragraph 25 of the License Agreement
26 corroborates that Paragraph 8(a) is controlling for the
27 definition of the word "term." In Paragraph 25, the
28 License Agreement specifies that SurModics's obligation

1 to supply patented chemicals to St. Jude ends "after
2 the expiration of the Agreement upon completion of the
3 *full term thereof (as set forth in Paragraph 8(a)).*"

4 Cruz Decl. ¶3, Ex. A at ¶25 (emphasis added). This
5 reference in Paragraph 25 to Paragraph 8(a) confirms
6 that the language of Paragraph 8(a) defines the "term"
7 of the License Agreement as ending when SurModics's
8 patents expires. Therefore, given that royalties are
9 expressly limited in Paragraph 5 to payment during the
10 "term of this Agreement," when read together with
11 Paragraph 8 and 25, this Court finds that it is plain
12 and unambiguous that St. Jude's obligation to pay
13 royalties ended with the expiration of SurModics's
14 patents.

15 SurModics argues that two other provisions in the
16 License Agreement, Paragraphs 8(b) and 11 allow for a
17 different interpretation of the word "term." The Court
18 finds this argument without merit. Paragraph 8(b) only
19 provides that upon the expiration of SurModics's
20 patents and full payment by St. Jude "of any monies due
21 under this Agreement as well as all royalties accrued
22 under [related agreement not at issue], the license
23 with respect to [patented trade secrets] licensed
24 herein for that Licensed Product shall be deemed a
25 fully paid up and non-exclusive license for that
26 Licensed Product." Cruz Decl. ¶3, Ex. A at ¶8(b).

27 The Court finds that when this paragraph is read in
28 the context of the rest of the agreement (i.e.

1 Paragraphs 8(a), 5, and 25), Paragraph 8(b) is only
2 stating that St. Jude has a continued obligation to pay
3 any royalties that had already been accrued during the
4 Term of the Agreement (Licensed Products that were sold
5 during the Term of the Agreement). The Court finds
6 that contrary to Defendant's proffered interpretation,
7 Paragraph 8(b) does not create any new obligations for
8 any license after SurModics's patents expired.

9 Similarly, Paragraph 11 only provides that after
10 the termination of the License Agreement, SurModics
11 would still have the "right to receive . . . royalties
12 to the extent owed." From its plain language,
13 Paragraph 11 also does not create any new obligations
14 for royalties after the termination of the agreement.
15 As such, the Court finds that the language of
16 Paragraphs 8(b) and 11 is consistent with an
17 interpretation that St. Jude's obligations to pay new
18 royalties ended with the expiration of SurModics's
19 patents.

20 Furthermore, such an interpretation of the Licensed
21 Agreement is consistent with case law. Under patent
22 law, once a patent expires, it is "in the public domain
23 and may be made and sold by whoever chooses to do so."
24 Sears Roebuck & Co. v. Stiffel Co., 376 U.S. 225, 231
25 (1964). Accordingly, case authority dealing with
26 license agreements pertaining to products manufactured
27 before but sold after the expiration of a patent have
28 held that royalties are only warranted when language in

1 license agreements explicitly obligates the licensee to
2 pay for royalties after the patent's expiration. See
3 AM Int'l, Inc. v. Graphic Mgmt. Assoc., 44 F.3d 572,
4 574 (7th Cir. 1995)(Posner, J.). In AM Int'l, a
5 license agreement only provided for these type of
6 royalties when the licensed product was ordered by
7 customers **six months** before the expiration of the
8 patent and shipped within five months of the patent's
9 expiration. Id. The AM Int'l court, however, found
10 that a licensor was not entitled to royalties for
11 products that were ordered **seven months** before the
12 expiration of the patent but shipped within five months
13 of the patent's expiration. Id. This is because "if
14 the parties. . . had wanted [the patent holder] to
15 obtain royalties on all machines shipped before
16 December 31 . . . they could have said so in just those
17 words." Id. at 576.

18 Similarly, the language of the provision in this
19 case does not contain any language that explicitly
20 obligates St. Jude to pay royalties for products that
21 were manufactured before but sold after the expiration
22 of the patent. SurModics argues that the absence of
23 such language should instead signal to the Court that
24 royalties are obligated for these products. However,
25 this Court is in accord with the reasoning in AM Int'l
26 and finds that a licensee is only obligated to pay
27 royalties for these products if the license agreement
28 expressly requires.

1 As such, this Court finds that the License
2 Agreement does not obligate St. Jude to pay royalties
3 for products sold after the expiration of SurModics's
4 patents. Therefore, the Court finds that Plaintiff is
5 entitled to summary judgment.

6 **IV. CONCLUSION**

7 For the reasons stated above, the Court **GRANTS**
8 Plaintiff's Motion for Summary Judgment. Therefore,
9 the Court **DENIES** Defendant SurModics's Cross-Motion for
10 Partial Summary Judgment.

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12
13 DATED: October 25, 2011

14 **IT IS SO ORDERED.**

15
16 RONALD S.W. LEW

17 **HONORABLE RONALD S.W. LEW**

18 Senior, U.S. District Court Judge
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